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DEVELOPING PLANS FOR ~~AN~~ the INTERNATIONAL MONETARY FUND AND ~~A~~ The WORLD BANK

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Office of Financial and Development Policy

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FORMULATION OF UNITED STATES PROPOSALS

The studies which the United States Government undertook regarding the kind of international financial machinery that would be needed in the postwar period were commenced shortly after the outbreak of hostilities in 1939. Secretary of State Cordell Hull, in December 1939, appointed from among the higher officers of the Department of State a committee known as the Advisory Committee on Problems of Foreign Relations. This committee had three subcommittees, one to deal with each of the following subjects:

Political problems;
Limitation and Reduction of Armaments; and
Economic problems

The subcommittee on economic problems concerned itself, among other things, with postwar financial and monetary matters. Among the early papers it considered was one entitled "Interlocking of Commercial, Financial, Monetary and Other Economic Problems." This committee was expanded in May 1940 to include representatives from other Departments and accordingly became the Interdepartmental Group To Consider International Economic Problems and Policies.[1] This group appointed a subgroup on monetary and financial policy which held a series of meetings beginning in the fall of 1940.

During that period, the Treasury Department's Division of Monetary Research, under the leadership of Harry D. White was giving independent study to these same questions, and, in the latter part of December 1941, produced a memorandum entitled, "Proposal for a Stabilization Fund of the United and Associated Nations." This draft proposal was submitted to the State Department early in January 1942 with the suggestion that the proposal be presented to the Conference of Ministers of Foreign Affairs of the American Republics which was to convene later that month in Rio de Janeiro. The Treasury Department suggested also that the proposal be submitted simultaneously to all of the other members of the United Nations. Although the proposal was not submitted to the Conference, nor to any other nation at that time, the following resolution, presented by the United States, was adopted by the Rio de Janeiro Conference as Resolution XV:

[1] The membership of this group consisted initially of the following: State Department: Leo Pasvolsky (Chairman), Adolf A. Berle, Jr., Henry F. Grady, Lynn R. Edminster, Herbert Feis, Harry C. Hawkins; Treasury Department: H. Merle Cochran, Harry D. White; Commerce Department: Grosvenor M. Jones, Louis Domeratzky, Richard V. Gilbert; Department of Agriculture: Mordecai Ezekiel, James L. McCamy, Howard R. Tolley, and Leslie A. Wheeler.

WHEREAS:

1. A more effective mobilization and utilization of foreign exchange resources would be of assistance in the struggle against aggression and would contribute to the realization of the economic objectives set forth at the First and Second Meetings of the Ministers of Foreign Affairs of the American Republics at Panama and Habana; and

2. The American Republics which are combined in a common effort to maintain their political and economic independence can cooperate in the creation of an organization to promote stability of foreign exchange rates, encourage the international movement of productive capital, facilitate the reduction of artificial and discriminatory barriers to the movement of goods, assist in the correction of the maldistribution of gold, strengthen monetary systems, and facilitate the maintenance of monetary policies that avoid serious inflation or deflation,

The Third Meeting of the Ministers of Foreign Affairs of the American Republics

Recommends:

1. That the Governments of the American Republics participate in a special conference of Ministers of Finance or their representatives to be called for the purpose of considering the establishment of an international stabilization fund.

2. That the conference in considering the establishment of such a fund shall formulate the plan of organization, powers and resources necessary to the proper functioning of the fund, shall determine the conditions requisite to participation in the fund, and shall propose principles to guide the fund in its operation.

The Treasury Department continued to make studies and, in March 1942, a memorandum was prepared entitled, "Preliminary Draft Proposal for United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations." This proposal dealt also with various economic problems in the field of commercial policy and commodity agreements, although it was subsequently narrowed to more strictly financial problems. Secretary Morgenthau presented the matter to President Roosevelt in May 1942 and proposed that the United States call a conference of Ministers of Finance to consider it. The President, in turn, suggested that the proposal be discussed with the Department of State and other Government agencies and that the question of such a possible conference be discussed with Secretary Hull.

Following the discussion with the President, an interdepartmental group, known as the Cabinet Committee, met, May 25, 1942, in Secretary Morgenthau's office to consider the proposals.[2] Those present at this meeting believed it desirable that the United States proceed with its plans and endeavor to establish the necessary international financial institutions prior to the postwar period. The group agreed to establish an interdepartmental subcommittee to which the interested agencies would send representatives; this subcommittee would report to the so-called Cabinet Committee.

The interdepartmental subcommittee, known as the American Technical Committee, held its first meeting May 28, 1942. The agencies represented were Department of State, Treasury Department, Department of Commerce, Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, and the Foreign Economic Administration. This Committee, under the chairmanship of Harry D. White of the Treasury Department, gave detailed consideration to the plans for a Monetary Fund and Bank, held numerous meetings over the next few years, and was to a large extent responsible for the final form of these institutions.[3]

The Committee in 1942 discussed the calling of a United Nations conference of technical experts to consider the Treasury proposal and so recommended to the Cabinet Committee. At a meeting of the Cabinet Committee in July 1942,[4] Mr.

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[2] This meeting was attended by: Department of State: Leo Pasvolsky and Herbert Feis; Treasury Department: Henry Morgenthau, David W. Bell, Edward A. Foley, Harry D. White, Bernard Bernstein, and Frank A. Southard, Jr.; Commerce Department: Jesse H. Jones; Board of Governors of the Federal Reserve System: Marriner S. Eccles and Emanuel A. Goldenweiser; Board of Economic Warfare: Louis Bean and V. Frank Coe.

[3] The individuals serving on this Committee varied from time to time, but the principal attendants were as follows: White House: Benjamin Cohen; State Department: William Adams Brown, Jr., E. G. Collado, Frederick Livesey, Leo Pasvolsky, John Parke Young; Treasury Department: Elting Arnold, Edward M. Bernstein, Henry J. Bittermann, Ansel F. Luxford, Raymond F. Mikesell, Harry D. White; Commerce: William L. Clayton, Hal B. Lary, August Maffry; Federal Reserve Board: Alice Bourneuf, Walter Gardner, E. A. Goldenweiser; Securities and Exchange Commission: Walter C. Louchheim; Export-Import Bank: Hawthorne Arey, Warren Lee Pierson; Foreign Economic Administration: James W. Angell, V. Frank Coe; National Resources Planning Board: Alvin H. Hansen.

[4] The meeting was held in Mr. Morgenthau's office at the Treasury and was attended by: White House: Lauchlin Currie; State Department: Dean Acheson and Leo Pasvolsky; Commerce Department: Jesse H. Jones; Federal Reserve Board: Marriner S. Eccles and Emanuel A. Goldenweiser; Board of Economic Warfare: Louis Bean and V. Frank Coe.

Acheson said the State Department believed that no general conference should be held before preliminary discussions had taken place with the United Kingdom and other large countries. After considerable deliberation it was agreed, in January 1943, that such exploratory discussions should take place with experts from six countries.

Considerable work in the field of international financial problems was being carried on in the meantime in the State Department by the Division of Special Research under the direction of Leo Pasvolsky and, after the end of 1942, by the new Division of Economic Studies of which Leroy D. Stinebower was chief. This new Division, in addition to studying monetary matters, prepared a plan for an International Investment Agency to make loans and facilitate the flow of capital. Assistant Secretary Berle transmitted this proposal to the American Technical Committee in 1943. The Division of Economic Studies also gave considerable attention to means of reviving private investment and to the question of a possible international organization to develop and enforce standards of investment practice and principles of equitable treatment by foreign governments. Under the chairmanship of Mr. Berle and later Mr. Pasvolsky, a series of meetings in the State Department considered fundamental problems of international finance and investment. Most of the attendants at these meetings were also members of the American Technical Committee.

COMPARISON WITH BRITISH PROPOSALS

During this period when the United States was considering international monetary and financial problems and was making plans for bilateral discussions of its proposals, the United Kingdom was considering the same problems. In August 1942, the British Embassy in Washington transmitted to the State and Treasury Departments copies of a plan entitled, "Proposals for an International Clearing Union." A letter to Assistant Secretary Berle said that the statement was for the informal consideration of United States experts.

The proposal had been prepared by John Maynard Keynes and came to be known as the "Keynes Plan"; the United States proposal was popularly known as the "White Plan." The United States plan was made available to the British, and a series of informal discussions took place between British and American technical experts. Under the leadership of the United Kingdom, a series of meetings also took place in London attended by representatives of the various governments in exile. The two plans remained strictly secret as far as the general public was concerned.

The British and United States proposals had many similarities but differed in several important respects. Both plans provided for the stabilization of exchange rates as a main objective and specified that changes in rates could take place, apart from changes within certain narrow limits, only with the approval of the proposed international organization. Both plans provided for an international currency unit defined in terms of gold—called "bancor" in the British plan and, "unitas" in the United States plan and a quota to be assigned each member based upon its economic importance, the quota to determine the member's drawing privileges on the organization as well as the member's voting rights. The plans differed in the organization's resources and their availability to members.

The United States plan provided for a contributory fund, each member providing its share of the resources based on its assigned quota. Members might have access to these resources under prescribed conditions in order to meet temporary deficits in their balances of payments.

The British plan, on the other hand, was based on the overdraft principle and provided that creditor countries on current international account would accept from their debtors a credit balance on the books of the Clearing Union, the balance being in terms of the new currency unit, the "bancor." The "bancor" was to be transferable and acceptable by all member countries in payment of international obligations. A debtor country could, in this manner, pay for imports by a debit balance against it on the books of the organization up to the amount of its quota. In the original form, the British proposal had provided almost no limit on the amount of credit to be supplied by the creditor country. The United States, a potential creditor, opposed this idea which the British eliminated in their revised proposal.

The Keynes plan also provided that a credit balance which remained unused for a certain period of time was automatically canceled. Thus, if a country continued, on total current account, to export more heavily than she imported, she

would accumulate credits which she would lose unless she were to spend them prior to a certain date. The reasoning was that the burden of adjustment to bring international accounts into balance should be placed more heavily on the creditor than it had in the past. This reasoning visualized the postwar problem as one of inadequate imports by certain countries. Unless such countries imported more goods, the credits earned by their exports would be canceled according to the Keynes plan. A debtor country could, therefore, continue to import without embarrassment. The United States did not accept this provision.

The Chancellor of the Exchequer referred in Parliament on February 2, 1943, to the need for "an international monetary mechanism which will serve the requirements of international trade and avoid any need for unilateral action in competitive exchange depreciation . . . a system in which blocked balances and uniliateral clearances would be unnecessary . . . an orderly and agreed method of determining the value of national currency units . . . we want to free the international monetary system from those arbitrary, unpredictable and undesirable influences which have operated in the past as a result of large scale speculative movements of short-term capital."

On March 9, 1943, newspapers carried a description of the British and United States plans. Accordingly, the two Governments decided to release the plans to the public. Before releasing the United States plan on April 7, 1943, Secretary of the Treasury Morgenthau appeared on April 5 before a joint secret session of the Senate Committees on Foreign Relations and Banking and Currency and the Special Committee on Post War Economic Policy and Planning to discuss a revised draft of the United States proposal. The British Government released its proposal to the public under date of April 8, 1943, pointing out that it had been discussed with the United States, the Dominions, and India but that the British Government was not committed to its principles or details. The United States had also made clear that her proposal was the work of technical experts and did not involve any official commitment.

DISCUSSIONS WITH OTHER COUNTRIES

The revised draft of the United States proposal, already available to the Governments of the United Kingdom, the U.S.S.R., French Committee of National Liberation, and China, was sent under date of March 4, 1943, to the Governments of Australia, Belgium, Bolivia, Brazil, Canada, Colombia, Chile, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, El Salvador, Greece, Guatemala, Haiti, Honduras, India, Iraq, Luxembourg, Mexico, the Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Poland, Union of South Africa, Uruguay, Venezuela, and Yugoslavia. Secretary Morgenthau's covering letter said:

> The document is sent to you not as an expression of the official views of this Government but rather as an indication of the views widely held by the technical experts of this Government.

He also invited these Governments to send technical experts to Washington to make suggestions and to discuss the proposal. In April 1943, the plan was also sent to the Governments of Egypt, Ethiopia, Iceland, Iran, and Liberia.

In addition to the discussions with British representatives, bilateral discussions with representatives of various other countries began in the spring of 1943. An informal conference was held at Washington on June 15, 16, and 17, 1943, attended by such technical representatives as were available from the above-named countries. Representatives of the following countries were present at these meetings: Australia, Belgium, Brazil, Canada, China, Czechoslovakia, Ecuador, Egypt, French Committee of National Liberation, Luxembourg, the Netherlands, Norway, Paraguay, the Philippines, Poland, United Kingdom, U.S.S.R., Venezuela, and the United States.

At this informal conference of 19 countries a number of proposals and memoranda were submitted. The Canadian representative presented a carefully prepared plan for an "International Exchange Union." This plan provided for an organization with 8 billion dollars of resources embodying many of the features of the British and United States proposals and was intended to be a compromise plan. The Canadian plan was favorably received by many of the representatives and was the basis for considerable discussion. Other proposals and suggestions submitted by China, Ecuador, and France received extended attention, either at the conference or subsequently. The similarities of the various views embodied in all these proposals were much more marked than were the differences. The conference considered especially the problems of adjustments of ex-

change rates, the size of quotas, gold contributions, and voting power in the proposed organization.

Bilateral discussions between the United States and various other countries were held during the latter part of 1943 and the first of 1944. These included discussions with Soviet experts who came to Washington early in 1944 and engaged in a series of lengthy discussions. Doubts had been expressed on how the Soviet economy could be related to the proposed organization. After asking numerous questions regarding the proposals, the Russian experts stated that they believed it would be possible for the U.S.S.R. to participate in the organization.

RECONCILIATION OF UNITED STATES AND BRITISH MONETARY PROPOSALS

At meetings between British and American representatives on June 22 and 23, 1943,[5] the United States informed the British that the minimum conditions for United States acceptance of membership in a stabilization fund were essentially as follows:

1. The United Kingdom should not alter its exchange rate prior to the beginning of fund operations;
2. the resources of the fund must be on the contributory rather than the overdraft principle;
3. the United States financial commitment must be a limited one, perhaps 2 or 3 billion dollars; and
4. the United States must have a veto over any change in the gold value of the dollar and over any change in the gold value of the proposed new currency unit.

These minimum conditions were set forth in a letter of July 24, 1943, from Mr. White to Lord Keynes. In reply, Lord Keynes, under date of August 10, 1943, accepted in substance the conditions, stating however that for British acceptance of the fund proposal provision must be made for greater flexibility in exchange rates and that gold subscriptions should be reduced.

In order that an international conference be successful, it was recognized that the United States and the United Kingdom must first reach agreement on all major points. Accordingly, British and American representatives held a series of informal conferences with this objective in view. Lord Keynes arrived in Washington in September 1943 at the head of a British delegation to conduct negotiations on various commercial policy and financial subjects and promptly outlined British views regarding the proposed stabilization fund. These views may be summarized as follows:

1. The United Kingdom would accept the contributory principle with a modification which Lord Keynes would introduce later.
2. The United Kingdom was agreeable to a maximum subscription by the United States of approximately 3 billion dollars but believed that aggregate quotas should be 10 to 12 billion dollars.
3. The United Kingdom was prepared to commit itself to maintenance of the present exchange rate for the pound sterling provided agreement was reached on other aspects of the fund proposal.
4. The gold contributions stipulated in the proposal would need to be reduced.
5. Greater flexibility of exchange rates should be provided for; the United Kingdom could not accept the requirement of approval by a ¾ majority vote for a change in exchange rates.
6. The provision for approval by an 85 percent majority vote for a change in the gold value of the new currency unit was unacceptable to the United Kingdom.
7. The provisions in the United States proposal for the gradual liquidation of the so-called abnormal sterling balances should be omitted since the British preferred to negotiate this matter themselves.

Lord Keynes presented a memorandum entitled "Exchange Rates" which embodied the following points:

1. Members would agree not to propose a change in exchange rates unless the change was essential to correct a fundamental disequilibrium.
2. The Fund should not withhold its approval of a proposed change if the change, inclusive of previous changes did not exceed 10 percent within any 10-year period.
3. Special consideration should be given to members which had exceeded their quota rights.
4. In the event that it was not possible to obtain the Fund's prior approval to a change in rate, a member could make the change and, if the Fund disapproved, the member could then either reverse its action or withdraw from the Fund.

[5] The British representatives included Sir Frederick Phillips, Messrs. D. H. Robertson, Lionel Robbins, and Redvers Opie.

5. The Fund should not disapprove a change in rate necessitated by social or political policies of the member.

In these discussions, Lord Keynes took the position that a member should have access to the resources of the Fund without limitation until it had withdrawn resources equivalent to its quota. The United States representatives, on the other hand, argued that the Fund should exercise control over all drawings on the Fund's resources and that no member should have an automatic right to utilize these resources. The British replied that, if a member were to be able to formulate its own policies and programs, it would need the assurance of unhampered access to the resources of the Fund. The United States experts believed that discretion on the part of the Fund was essential if the Fund's resources were to be conserved for the purposes for which the Fund was established and if the Fund were to be influential in promoting what it considered to be appropriate financial policies.

These discussions revealed a fundamental difference in viewpoint between the United Kingdom and United States regarding the nature of the proposed Fund and its operations—a difference of view which has at times reappeared. The British believed that the Fund should operate as an automatic institution with a minimum of discretion on the part of its management, whereas the United States believed that the Fund could be most effective in achieving its purposes if its operations were conducted on a discretionary basis. According to the United States viewpoint, it followed that the Fund should be managed by well-paid officers who give their full time to Fund responsibilities.

In the discussions with the British representatives in 1943, the United States insisted that before adjustments in exchange rates could take place a member should first consult with the Fund and obtain its approval. The British preferred latitude for independent member actions. Other matters which were considered at length had to do with the following: problems which would arise in the event that the Fund's holdings of the currency of a member were to become scarce, the amount of each member's subscription payable in gold, voting with respect to adjustments in exchange rates, and the amount of the aggregate quotas. It was agreed that a joint statement should be prepared showing the points of agreement and those that were as yet unresolved.

During the discussions, Lord Keynes presented a memorandum entitled "Suggestions for the Monetization of Unitas" dated September 21, 1943. The objective of the proposal was to make the unitas a truly international currency rather than merely an accounting unit. Lord Keynes' proposal provided that each member would pay at least 12½ percent of its quota in gold and the remainder in securities carrying an interest rate of 1½ percent payable in unitas. Each member would be given a balance at the Fund in unitas, such balances to be freely acceptable by all members in the settlement of international obligations. Members would agree to accept unitas in exchange for their own currency up to the point that a member's holdings of unitas reached 120 percent of its quota. Members able to do so should redeem each year in gold or gold convertible currencies their securities in the amount of 2 percent of their quotas. Lord Keynes urged that his proposal would provide a basis for multilateral clearing which did not exist in the United States proposal.

The principal differences between the British and United States representatives at the end of these discussions were on the following points:

1. The amount of gold subscription of each member; the United States proposed 25 percent of the quota or 10 percent of gold and foreign exchange holdings, whichever was the smaller; the British proposed 12½ percent of the quota. (Later the British accepted the United States proposal but specified that the foreign-exchange holdings were to be net official holdings.)

2. Powers of the Fund to limit a member's access to the Fund's resources; the United States believed that the Fund should be able to limit such access at any time, whereas the British urged that no restrictions should be imposed prior to the point where the Fund's holdings of a member's currency exceeded 166 percent of the member's quota.

3. Provision for an international currency unit other than a unit of an accounting nature; the United States preferred the latter.

4. Rights of a member to adjust its exchange rate; the British desired that latitude be provided for unilateral changes.

5. Requirements regarding the repurchase by a member of its currency held by the Fund.

Lord Keynes returned to London in the early part of October 1943, but an exchange of views continued between British and American repre-

sentatives by correspondence, cable, and direct negotiations with British representatives in Washington. The British transmitted in December 1943 a new draft of the joint statement introducing a section entitled "Transitional Arrangements" the substance of which was later embodied in the final agreement. This section provided for a period of 3 or more years following the war during which members would not be required to accept the obligations of the Fund regarding exchange restrictions.

JOINT STATEMENT

Agreement between the United States, the United Kingdom, and other countries was finally reached, and, on April 21, 1944, a "Joint Statement by Experts on the Establishment of an International Monetary Fund" was released to the public, which contained the outlines of the plan finally worked out at Bretton Woods.

The statement was published simultaneously in Washington, London, Moscow, Chungking, Ottawa, Rio de Janiero, Mexico City, and Habana, and in full or abbreviated form in many other countries. The Governments of the Soviet Union and China agreed to participate in a financial conference on the basis of that statement. The British decision to participate in a conference was reached, May 10, 1944, on the understanding that the United Kingdom was not committed to become a member of the proposed institution. This position was the same as that of other governments including the United States, where congressional action would be necessary for the United States to become a member. During the negotiations, the Secretary of the Treasury had kept the Congress informed of developments.

INTERNATIONAL BANK PROPOSAL

The original proposal of the Treasury Department in January 1942, noted above, concerned the establishment of an international stabilization fund. The proposal as revised in March 1942 included also the outlines of a bank and was entitled "Preliminary Draft Proposal for United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations." The proposed bank was to have a capital of 10 billion dollars subscribed by the member governments and was designed to make loans for reconstruction and development purposes. At least 25 percent of the capital was to be paid in gold. The loans were to be partly in local currencies and partly in international currency units, according to estimates of the portion of the loan to be spent at home and abroad.

In the interdepartmental discussions of the Treasury proposal for a monetary fund and bank, the possibility was considered of combining the two institutions into a single institution. This suggestion was rejected, however, in the belief that the functions of the two institutions were distinct and that they would require different types of personnel.

The interdepartmental discussions during 1942 and most of 1943 were given over practically entirely to the proposal for a stabilization fund and there was little or no discussion of the bank. This situation was due partly to the greater technical difficulties inherent in the fund proposal and also to the fact that currency and exchange difficulties during the nineteen thirties had been so severely disruptive to world trade and to the internal economies of all countries.

Although little or no interdepartmental discussion of the bank proposal took place during this period, active study of the question was underway both in the State and Treasury Departments.

At the 3-day informal conference held at Washington in the middle of June 1943 with representatives from 19 countries, Secretary Morgenthau informed the conference that, following the consideration of the stabilization fund proposal, the next step would be consideration of the proposal for an International Bank for Reconstruction and Development. This was the first announcement to other countries that the United States was considering plans for an international bank.

Under date of September 4, 1943, Assistant Secretary Berle sent to Mr. White of the Treasury Department a proposal for an International Investment Agency which had been prepared in the State Department. This proposal had been prepared in the Division of Economic Studies in consultation with other divisions and officers of the Department. It proposed in some detail an international institution which would make loans to its members for approved purposes.

The Treasury and State Department proposals were fundamentally not very different. Each provided for an institution with a substantial amount of capital payable partly in gold and partly (the larger part) in national currencies. The proposed institution would cooperate with private capital and would not compete with it in financing reconstruction and development needs of subscribing countries. Loans could be made out of its own resources or it could guarantee private loans. Repayment prospects of all borrowers were to be carefully examined since the institution was intended to operate on sound financial principles. It could issue its own obligations for sale in the private capital market in order to obtain funds for lending. The Treasury proposal provided that each loan by the bank must be guaranteed by a member government. This guaranty was not required in the State Department proposal.

The two proposals differed also in that the Treasury draft provided that the proceeds of loans could be spent only in the country of the currency loaned. The State Department proposal, on the other hand, provided that the proceeds of loans could be spent in any country the borrower chose i. e., the proceeds were freely transferable. This matter of "tied loans" was one of considerable debate in the American Technical Committee, representatives of the Export-Import Bank urging the Treasury view. The final arrangement in the Bretton Woods document was a compromise; the proceeds of certain loans are not freely transferable into other currencies (principally loans made out of the Bank's subscribed capital), whereas the proceeds of other loans (made out of money borrowed by the Bank) are freely transferable. The Bank, however, provides borrowers with such currencies as are needed for expenditures in the territories of other members.

The British proposal for a Clearing Union referred to the need for other institutions, including a Board for International Investment, and mentioned the services which the Clearing Union might perform for such a Board. At the close of the discussions between British and American representatives in the fall of 1943, the United States representatives referred to this country's interest in a bank and gave the British representatives a draft of the bank proposal. At a meeting the following morning, this proposal was discussed, which was the only discussion of a bank during this series of British and American meetings. The Treasury Department published on November 24, 1943, "A Preliminary Draft Outline of a Proposal for a Bank for Reconstruction and Development of the United and Associated Nations."

The bilateral conversations with representatives of various countries, including the United Kingdom, which took place late in 1943 and during the first part of 1944 dealt primarily with the fund proposal, although before these discussions were over the bank had received considerable detailed consideration. The foreign representatives showed a strong interest in the establishment of an international bank. The war-devastated countries desired a source of funds to assist in reconstruction, whereas the relatively underdeveloped countries were interested in an institution which would aid them in their plans for economic development.

The discussions between the British and United States representatives had centered around the development of the so-called Joint Statement by Experts on the Establishment of an International Monetary Fund, as the basis for an international conference. Agreement on this statement required prolonged and difficult negotiation, and, since it was desired to hold a conference promptly, time did not permit the preparation of a similar statement with respect to the bank proposal. The discussions with the British and other representatives had, however, indicated a large measure of agreement on the provisions regarding the proposed Bank. Thus it was that when plans were made for the calling of an international conference for July 1944 the proposal for an international bank was not so far advanced as that for the Monetary Fund. Some of the United States experts believed that if the conference could agree upon a Monetary Fund that would be a significant accomplishment and was perhaps all that could be hoped for. Although the bank proposal was greatly desired, a feeling existed in some quarters that the conference might not be able to develop and agree upon plans for both a monetary fund and a bank and that a subsequent conference to consider the question of a bank and other investment problems might be necessary.

BRETTON WOODS CONFERENCE

In May 1944, the President issued invitations to the 44 united and associated nations to send

representatives to a United Nations Monetary and Financial Conference to be held at Bretton Woods, New Hampshire, in July 1944. The Conference was to discuss the proposal for an International Monetary Fund within the terms of the Joint Statement and was also to consider the proposal for a Bank for Reconstruction and Development.

In order to develop further some of the details of the proposals and thereby facilitate the work of the Conference, a preliminary meeting was held at Atlantic City during the latter part of June. On June 15, a group of American financial experts assembled there and were joined a few days later by experts from 16 other countries, namely Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, Greece, India, Mexico, the Netherlands, Norway, the United Kingdom, and the U.S.S.R. This group worked intensively endeavoring to deal with some of the still unsettled questions and to produce a more finished document. Informal discussions were held and on June 26 a full meeting of this preliminary conference took place.

At the Atlantic City meetings, the British experts, headed by Lord Keynes, presented proposals regarding the Bank which involved rather extensive changes from the earlier plan, but which met with almost immediate approval by the experts of the other nations including the United States. According to these suggestions, embodied in the final document, only a small portion of the Bank's capital, namely 20 percent, would be paid in and be available for loans. The remaining 80 percent would constitute a guaranty fund to be used, if necessary, in connection with the Bank's guaranties of private loans or to meet other obligations of the Bank. This proposal meant that the Bank's cash resources would be considerably smaller than originally contemplated. It became clear that the proposal for a Bank was to receive major consideration at the Conference. These proposals, together with suggested changes in the Fund plan, had been prepared by the British delegates in collaboration with the delegates of several European governments in exile.

The group at Atlantic City completed its work there on June 30 and went directly to the Conference at Bretton Woods which convened on July 1, 1944.[6] Forty-four governments were represented at the Conference. In addition, Denmark, which had no government in exile, was represented unofficially by her Minister in Washington who attended in his personal capacity upon the invitation of the Conference.

The Conference divided itself into three technical commissions as follows: Commission I, International Monetary Fund; Commission II, Bank for Reconstruction and Development; and Commission III, Other Means of International Financial Cooperation. These Commissions were broken down into committees and subcommittees which considered the various specific sections of the proposed articles of agreement for the Monetary Fund and for the Bank.

A great deal of interest centered around the determination of the quotas to be assigned the countries by the Monetary Fund agreement. A member's quota determined not only its subscription, payable partly in gold and partly in its own currency, but also was related to its drawing privileges on the Fund and established its voting rights. Countries, therefore, desired to have their quotas as large as possible, the size of the quota, as a matter of prestige, indicating the importance of the country, so that preparation of a schedule of quotas satisfactory to all countries proved to be a difficult task. The quotas were based upon economic considerations such as the size of a country's foreign trade, fluctuations in its balance of payments, and other factors indicating needs for foreign-exchange reserves. Lengthy negotiations were necessary and several of the countries were not satisfied with the final results.

A different attitude prevailed regarding the quotas, or subscriptions as they were called, for the Bank. Although the size of the subscription determined a member's voting rights, it had no relation to the amount which the member might borrow. The countries therefore desired that their Bank subscriptions be as small as possible. The United States and others urged that Bank and Fund quotas be identical for each member, but due to the opposition of certain countries, several departures from this were made, the United States and a few others accepting larger Bank subscriptions.

The United States and the United Kingdom continued their differences over the extent to which the Fund should be an automatic institution, the British believing that a member's rights of access

[6] For proceedings and documents of the U.N. monetary and financial conference at Bretton Woods, see Department of State publication 2866.

to the Fund's resources should be predetermined and according to established rules. The United States, on the other hand, believed that the Fund's operations should be on a discretionary basis. The articles of agreement as finally adopted represented somewhat of a compromise of these views.

The United States desire for a strong discretionary Fund led to the provision that the Board of Executive Directors should sit in continuous session. The United States interpreted this to mean that the Directors should devote their full time to their Fund duties. At the inaugural meeting in Savannah in March 1946, however, it developed that the British did not so interpret this provision. It was finally arranged that either the Director or his alternate should be in continuous attendance at Fund headquarters.

The question of charges to be imposed by the Fund on amounts drawn by members from Fund resources was the subject of considerable discussion. Some of the representatives urged that there be no charges on such drawings. The provisions agreed to provide that the charges increase progressively with the amounts drawn, and the length of time such drawings remain unpaid.

The U.S.S.R. proposed that the gold contributions of countries devastated by the war be substantially less than for other members. The Conference did not accept this provision. The U.S.S.R. also desired that the Bank grant more favorable terms on its loans to countries whose territories had been devastated. The articles of agreement of the Bank contain a concession on this score in that they provide that the Bank "shall pay special regard to lightening the financial burden" for members suffering "great devastation from enemy occupation or hostilities." The U.S.S.R. also objected to the Fund provision regarding the obligation of a member to supply information to the Fund. As a result of U.S.S.R. opposition, this provision was somewhat weakened.

The Latin American representatives feared that the Bank would be more interested in making reconstruction loans to European countries than in extending development loans to the underdeveloped areas. Provision, therefore, was inserted to the effect that the Bank's resources should be used "with equitable consideration to projects for development and projects for reconstruction alike."

Australia, New Zealand, the United Kingdom, and a few other countries feared that the Fund provisions regarding the elimination of exchange restrictions and the maintenance of stable exchange rates might be inconsistent with a domestic policy of full employment and other social objectives. Australia desired that the articles of agreement set forth that members had an obligation to maintain full employment. Such a provision was not included. The articles, however, contain a provision that the Fund "shall not object to a proposed change [in rate] because of the domestic, social or political policies of the member . . .".[7]

Considerable discussion, led particularly by the United Kingdom, centered around the language to be used in describing the postwar transitional period and the flexible arrangements and special privileges to be enjoyed by members during this period with respect to the elimination of exchange restrictions, discriminatory currency arrangements, and multiple currency practices. Most of the countries maintained exchange restrictions, and several Latin American countries had multiple currency arrangements which were inconsistent with the proposed articles of agreement. The provision adopted regarding the transitional period permitted the temporary retention of these restrictions and arrangements and their gradual elimination.

Other matters which were the source of extensive discussion had to do with a definition of monetary reserves and of convertible currencies; with voting rights weighted in favor of creditor countries as proposed by the United States and included in the final draft; with the withdrawal of a member, either forced or voluntary, and the payment to such member of its share of the assets, some of the Latin American representatives urging that a forced withdrawal would be a reflection on the honor of a country; distribution of assets, in the event of liquidation of the Fund or Bank, and the relative rights of debtors and creditors in such case; and various technical problems such as pro-

[7] The Board of Executive Directors in September 1946 interpreted the articles of agreement as follows:

The Executive Directors interpret the Articles of Agreement to mean that steps which are necessary to protect a member from unemployment of a chronic or persistent character, arising from pressure on its balance of payments, are among the measures necessary to correct a fundamental disequilibrium; and that in each instance in which a member proposes a change in the par value of its currency to correct a fundamental disequilibrium the Fund will be required to determine, in the light of all relevant circumstances, whether in its opinion the proposed change is necessary to correct the fundamental disequilibrium.

visions regarding a possible scarcity in the Fund's holdings of a particular currency (these sections provide that if the Fund declares its holdings of a certain currency scarce, members may impose restrictions on the purchase and sale of such currency; they also provide for measures to replenish Fund holdings of such currency), and provisions regarding the repurchase by a member of its own currency held by the Fund particularly when such currency has been acquired by the Fund as a result of large drawings by the member on Fund resources.

Consideration was given to commercial policy and other economic problems, such as restrictions on the movement of goods, closely related to the objectives of the Fund. It was realized that Fund objectives could not be attained through the instrumentality of the Fund alone. Accordingly, Resolution VII recommended that the governments promptly reach agreement on the reduction of obstacles to international trade and on other important matters. These problems were subsequently dealt with in the charter for an International Trade Organization.

Other resolutions included a recommendation that the Bank for International Settlements be liquidated (this recommendation was not carried out) and that further study be made of fluctuations in the value of silver, adopted at the suggestion of Mexico.

The Conference worked strenuously to reconcile the differences of viewpoint, large and small, of the 44 countries and to complete its difficult task in the short time assigned to it. On July 22, 1944, 3 weeks after the Conference began, the articles of agreement for the two institutions were complete, and the final act was signed by representatives of the 44 governments present. Provision was made for the subsequent participation of other countries in the Fund and Bank. The articles of agreement required the formal approval of the various governments in accordance with their various legal processes.

SUMMARY OF ARTICLES OF AGREEMENT

The articles of agreement of the International Monetary Fund as finally drafted at Bretton Woods set forth what the nations represented there considered the principles and procedures which nations should follow in the field of currency and exchange and provided international machinery to help attain these objectives. The following purposes of the Fund as stated in article I are to guide the Fund in all its decisions:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The principal provisions through which the above purposes are to be achieved are, in summary form, as follows:

i. Member countries undertake to keep their exchange rates as stable as possible, confining fluctuations to narrowly prescribed limits, and to make no change in rates unless essential to correct a fundamental disequilibrium.

ii. Any adjustment of an exchange rate must in all cases be made by consultation with the Fund. Beyond certain small changes, rates can be adjusted only with the concurrence of the Fund.

iii. Par values are to be stated in terms of gold (or U.S. dollars of the weight and fineness as of July 1, 1944), and gold is to be accepted by members in settlement of accounts.

iv. A common pool of resources contributed by the members on the basis of quotas is established and available under safeguarding conditions to meet temporary shortages of exchange. It is designed to help a member maintain the foreign exchange value of its currency until such member has had time to correct maladjustments. The total of the quotas of the countries[8] represented at Bretton Woods is 8,800 million dollars of which the United States quota is 2,750 million dollars. The resources of the Fund are not intended to be used to provide capital for reconstruction, investment, or for other long-term purposes but are available only for making payments for current transactions, which are defined in the articles of agreement.

[8] Excluding Denmark; see p. 786.

v. Member countries agree not to engage in discriminatory or multiple currency practices or similar devices or, except with the approval of the Fund, to impose restrictions upon payments for current international transactions. Existing restrictions and practices are to be abandoned as soon as the postwar transitional period permits. Special provisions provide flexibility in eliminating restrictions and practices during this transitional period.

vi. Member countries agree to maintain the gold value of their currency held by the Fund so that the assets of the Fund will not depreciate in terms of gold.

vii. The Fund may deal only with governments or their agencies and may have no direct contact with the foreign exchange market.

viii. The Fund is governed by a Board of 12 or more Executive Directors which functions in continuous session at the Fund's headquarters. Five of these are appointed by the countries with the five largest quotas and the remainder are elected by the other members. The Board of Governors which has final authority consists of one governor appointed by each member and meets annually. Voting of members is weighted according to the size of a member's quota.

SUMMARY OF ARTICLES OF AGREEMENT OF INTERNATIONAL BANK

The following purposes of the International Bank as stated in article I of the Bank articles of agreement are to guide the Bank in all its decisions:

(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The International Bank was given an authorized capital of 10 billion dollars of which 8.8 billion dollars was assigned to the countries represented at the Bretton Woods Conference. The United States subscription was 3,175 million dollars. Only 20 percent of the subscribed capital, however, is paid-in and available for loans by the Bank, the remainder being a guaranty fund which can be called for payment only if needed in connection with the Bank's guaranties or other obligations. Two percent of a member's subscription is payable in gold or United States dollars and the balance in its own currency.

In order to obtain funds for lending, the Bank may sell its own obligations in the private capital market. Such sale is intended to be the principal source of funds for the Bank. Loans by the Bank must be exclusively for the benefit of members and are ordinarily for specific projects of reconstruction or development. The Bank may not only make loans itself but may also guarantee private loans. Each loan whether guaranteed or made directly by the Bank must be guaranteed by the national government of a member. The Bank is not to compete with private capital and may not make a loan if private capital is available on reasonable terms.

The Bank, like the Fund, is governed by a Board of at least 12 Executive Directors which is in continuous sessions at the Bank's headquarters. The Board of Governors is the final authority. This Board which consists of one governor appointed by each member meets annually. Voting is weighted according to the size of a member's subscription. In order to become a member of the Bank, a country must first become a member of the Fund.

ESTABLISHMENT OF FUND AND BANK

United States participation in the Fund and Bank was authorized by Congress in the Bretton Woods Agreement Act of July 1945. This act also created the National Advisory Council on International Monetary and Financial Problems consisting of the Secretary of the Treasury (Chairman), Secretary of State, Secretary of Commerce, Chairman of the Board of Governors

of the Federal Reserve System, Chairman of the Export-Import Bank, and (added later) the Administrator of the Economic Cooperation Administration. This Council consults with the United States representatives on the Fund, and the Bank and advises them on policies to be pursued.

The articles of agreement of the Fund and of the Bank were signed at the Department of State on December 27, 1945, by representatives of 30 countries who also deposited their appropriate instruments, thereby bringing the two institutions into formal existence. Five additional countries signed the articles of agreement prior to December 31, 1945, and several others followed soon thereafter.[9] The inaugural meeting of the Board of Governors of each institution was held at Savannah, Georgia, in March 1946, at which time the Executive Directors were chosen. The two Boards of Executive Directors held their first meetings in May 1946 at Washington which was selected as Fund and Bank headquarters. The two institutions were thus officially under way.

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